

Service Date: October 12, 1983

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

IN THE MATTER Of The Application Of The	)	UTILITY DIVISION
TOWN OF WIBAUX For Authority To Increase	)	DOCKET NO. 82.12.69
Water Rates And Charges.	)	PROPOSED ORDER NO. 5021
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APPEARANCES

FOR THE APPLICANT:

Rod Barnaby, Town Clerk, Town of Wibaux, Wibaux, Montana 59353.

FOR THE COMMISSION:

Opal Winebrenner, Staff Attorney, 1227 - 11th Avenue, Helena, Montana 59620.

BEFORE:

Danny Oberg, Commissioner, Presiding Officer  
Thomas J. Schneider, Chairman

The Hearing Examiners, having taken evidence, and being fully advised in the premises, makes the following Proposed Findings of Fact, Conclusions of Law and Order:

BACKGROUND

1. On December 29, 1982, the Town of Wibaux (Applicant or Town) filed an application with this Commission for authority to increase rates and charges for water service to its customers in the Wibaux, Montana area. The Applicant requested an average increase of approximately 33 percent which would result in an annual revenue increase of approximately \$9,400.

2. On February 23, 1983, this Commission issued a "Notice of Opportunity For Public Hearing" and a public hearing was requested.

3. On July 12, 1983, a public hearing was held in the Town Council Chambers, Town Hall, Wibaux, Montana. The purpose of the public hearing was to consider the merits of

the Applicant's proposed water rate adjustment.

#### ANALYSIS AND FINDINGS OF FACT

4. At the public hearing, the Applicant presented the testimony and exhibits of Rod Barnaby, Town Clerk for the Town of Wibaux. Mr. Barnaby testified relative to: the financial condition of the utility, necessary capital improvements to the water system and the allocation of general expenses between the water and sewer utilities.

5. Two public witnesses presented testimony at the public hearing. The major concern expressed by these witnesses was whether an actual need for a proposed water rate increase existed.

6. Before the Commission could make a fully informed decision, regarding the need for increased rates, it was necessary to request the submission of "late filed exhibits." The following information was submitted subsequent to the close of the public hearing:

1. A listing of outstanding utility bond issues.
2. An explanation of expense items contained in the "Miscellaneous Expense" account.
3. An explanation of whether or not the Montana Highway Department contributed any funds toward the replacement of the main on Wibaux Street.
4. A copy of the Water Revenue Bond Ordinance.
5. A copy of bond repayment schedules.

#### CAPITAL IMPROVEMENTS

7. At the public hearing, Mr. Barnaby testified that engineering studies had been conducted to determine the condition of the existing utility plant in service and what utility plant improvements were necessary to insure continued adequate provision of service. The Engineer's report identified eight (8) capital improvements that should be undertaken to insure continued reliable and adequate service to consumers connected to the Wibaux water system. The following table indicates the recommended capital improvements and their estimated cost:

Table 1

<u>Capital Improvements (Existing System)</u>	<u>Cost</u>
10" Water Main on Wibaux Street	\$ 62,200
Water Line Looping	83,030
Distribution Lines	41,040
Supply System Automatic Controls	17,250
Valves (Automatic Controls)	4,850
Hydrants	<u>39,550</u>
Total Improvement Costs (Existing)	\$247,920
<u>Future Capital Improvements</u>	<u>Cost</u>
Distribution Lines	\$337,570
Storage System	\$272,550
Total Future Improvement Costs	<u>\$650,120</u>
TOTAL COST ALL IMPROVEMENTS	<u>\$898,040</u>

8. During the course of his testimony, Mr. Barnaby indicated that the replacement of the 10" water main on Wibaux Street had been completed, in conjunction with a Montana Department of Highways project, and had been funded through the issuance of a revenue bond.

9. Concerning the financing of the remaining seven (7) capital improvements listed in Table 1, Mr. Barnaby stated the Town was attempting to secure Community Development Block Grant funds for construction of some of the improvements, and that the remaining ones would be financed through the issuance of General Obligation Bonds.

Based upon the financing vehicle described by Mr. Barnaby for the construction of the proposed capital improvements, the Commission finds that it does not have under consideration in this docket a revenue requirement for funding of these improvements because the water utility subscribers will not be the parties directly responsible for payment of the debt incurred for construction.

The Commission does not recommend issuance of General Obligation Bonds for the construction of utility plant because repayment of the debt is based on a general tax levy against all property and therefore does not necessarily result in the consumer receiving the benefit of the water service paying his proportionate share of the construction expense. The Commission recommends that the Town examine the possibility of issuing Revenue Bonds which will be a debt obligation of the utility. With revenue bond financing the consumer receiving the benefit of the water utility plant and service will be paying for his proportionate share of the construction

expense.

FINANCIAL DATA

10. The Applicant submitted financial statements reflecting water utility revenue and expense for the last three fiscal years (1981, 1982, 1983).

11. The Applicant operates a water utility system that is totally metered, with the exception of 1 or 2 connections, and experiences annual fluctuations in both revenues and expense due to factors affecting consumer consumption patterns. Such factors include but are not limited to the number of persons per household, temperature and precipitation. In an effort to minimize the effect of consumer consumption factors on a utility's operating revenue and expense, it is the Commission's general policy to use at least a three year average to determine the adequacy of rates. Using this procedure, the Applicant's average revenue generation and operating expenses FY 1981 through 1983 are as follows:

Table 2

<u>Fiscal Year</u>	<u>Revenue Generation</u>	<u>Operating Expenses</u>
1981	\$46,486	\$40,035
1982	\$38,820	\$46,920
1983	\$40,296	\$41,924
Average	\$41,867	\$42,960

The preceding table indicates that on an average basis, the Applicant is incurring an annual operating loss of \$1,093.

12. Mr. Barnaby stated that the expenses for the water utility included the salary of one full-time employee and one-fourth of the Town Clerk's salary. He also explained that both of these employees devoted some of their time to the Town's sewer utility operation.

Mr. Barnaby conceded on cross-examination, by reference to a letter sent to this Commission by the prior Town Clerk, Marvel Cale, that the operating expenses of the water utility should be reduced by \$6,500 and the expense of the sewer utility increased by \$6,500. This revision would fairly reflect the division of labor for the Town Clerk and the Water Superintendent between the water and sewer utilities.

13. In connection with the operation of the water utility the Applicant has incurred a water revenue bond debt obligation. The Water Revenue Bond was issued in 1978 for \$50,000, with a 20 year term and an interest rate of 7%. The proceeds from the bond issue were used to

construct a new water well with the necessary appurtenances in the Town of Wibaux.

The cost for repayment of this bond issue, as reflected in the Applicant's 1983 financial report, is \$2,888, and is an appropriate expense incurred in conjunction with the operation of the municipal water utility.

14. Based upon Findings of Fact Nos. 11, 12 and 13, the Commission finds that the rates presently approved and in effect for the water utility generate a net operating income of approximately \$2,519 annually. Computed as follows:

Operating Revenue		\$41,867
Operating Expense	\$36,460	
Debt Service	2,888	
Total Expense		<u>\$39,348</u>
NET INCOME		\$ 2,519

#### MISCELLANEOUS

15. During the course of his testimony in this Docket, Mr. Barnaby stated that the increase requested in this proceeding was to cover the operating expenses of the utility and to provide the utility with sufficient net operating income to allow for accumulation of a reserve for replacement of minor capital items.

16. Given the fact that the water utility is currently generating an annual net operating income of \$2,519, under present rates, which meets the utility's needs as outlined by Mr. Barnaby, the Commission finds the Applicant's request for increased water rates should be denied.

#### CONCLUSIONS OF LAW

1. The Montana Public Service Commission properly exercises jurisdiction over the parties and subject matter in this proceeding. Title 69, Chapters 3 and 7, MCA.

2. The Commission afforded all interested parties notice and an opportunity to participate in this proceeding. Section 69-2-303, MCA.

3. The rates approved herein are just and reasonable. Title 69, Chapter 3, MCA.

#### PROPOSED ORDER

THEREFORE, THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. The application of the Town of Wibaux for authority to increase rates and charges for water service is hereby DENIED.

2. Pursuant to ARM 38.2.4802, this is a Proposed Order. Any party shall have an opportunity to file exceptions to this initial decision, present briefs and make oral arguments before the entire Commission, provided such exception, briefs and requests for oral argument are presented to this Commission within twenty (20) days from the service date of this Proposed Order.

3. A full, true and correct copy of this Proposed Order will be sent to the Applicant and to other parties.

DONE at Helena, Montana this 12th day of October, 1983.

DOCKET NO. 82.3.20, ORDER NO. 4958 7

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

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Danny Oberg, Commissioner

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Thomas J. Schneider, Commissioner

ATTEST:

Madeline L. Cottrill  
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.